

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1052 - SB 1064

March 8, 2011

SUMMARY OF BILL: Exempts from state and local sales tax the retail sale of diabetic testing supplies, including lancets, test strips for blood glucose monitors, and visual reading and urine test strips, when sold pursuant to a prescription for human use.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue - \$2,098,100/FY11-12
\$4,196,300/FY12-13 and Subsequent Years**

**Decrease Local Revenue - \$886,400/FY11-12
\$1,772,800/FY12-13 and Subsequent Years**

Assumptions:

- According to the Department of Revenue (DOR), diabetic testing supplies, including lancets, test strips for blood glucose monitors, and visual reading and urine test strips, are sales-taxable items under current law, except when such supplies are used by non-profit organizations.
- According to DOR, diabetic test strips, lancets, and other diabetic testing supplies are not sold pursuant to prescriptions under current law.
- This bill will incentivize individuals to obtain prescriptions for their diabetic testing supplies for the purpose of no longer being required to pay sales tax on these items.
- Based on information provided by the Department of Revenue (DOR), the national diabetes test strips market and the national lancets market will generate approximately \$4.4 billion in sales during FY11-12 (\$3.7 billion from test strips and \$0.7 billion from lancets). These numbers are assumed to remain constant in subsequent years.
- According to the U.S. Census, the estimated population in Tennessee during 2009 was 6,296,254; the estimated population for the United States is currently 308,745,538. Therefore, the population in Tennessee is approximately 2.04 percent of the national population (6,296,254 / 308,745,538).
- Tennessee accounts for 2.04 percent of the national test strips market and the national lancets market, the equivalent of \$89,760,000 in statewide sales (\$4.4 billion x 2.04%).
- Thirty percent of market sales in Tennessee are sales tax exempt under current law as a result of being used by non-profit organizations. Therefore, approximately \$26,928,000 (\$89,760,000 x 30%) in sales are sales tax exempt under current law.

- Taxable sales from both markets occurring in Tennessee are estimated to be \$62,832,000 per year (\$89,760,000 - \$26,928,000) under current law.
- The percent reduction in taxable sales, as a result of individuals obtaining prescriptions for their diabetic testing supplies, is estimated to be 50 percent in the first year (FY11-12) and 100 percent in second and subsequent years.
- A state sales tax rate of 7.0 percent and a local option sales tax rate of 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments are apportioned 4.5925 percent of state sales tax revenue as state-shared tax revenue.
- The decrease in state revenue for FY11-12 will be \$2,098,125 $[(\$62,832,000 \times 50.0\% \times 7.0\%) - (\$62,832,000 \times 50.0\% \times 7.0\% \times 4.5925\%)]$.
- The decrease in local government revenue for FY11-12 will be \$886,395 $[(\$62,832,000 \times 50.0\% \times 2.5\%) + (\$62,832,000 \times 50.0\% \times 7.0\% \times 4.5925\%)]$.
- The recurring decrease in state revenue will be \$4,196,251 $[(\$62,832,000 \times 7.0\%) - (\$62,832,000 \times 7.0\% \times 4.5925\%)]$ beginning in FY12-13.
- The recurring decrease in local government revenue will be \$1,772,789 $[(\$62,832,000 \times 2.5\%) + (\$62,832,000 \times 7.0\% \times 4.5925\%)]$ beginning in FY12-13.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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